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UNDP: COUNTRY PROGRAMMES AND RELATED MATTERS

FIRST COUNTRY PROGRAMME FOR ESTONIA

Programme period	Actual resources programmed	$
1993-1996	Net IPF	827 000
	Estimated cost-sharing*	627 000
	Total	1 454 000

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* Includes $377,000 from the Baltic Trust Fund.

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. The Republic of Estonia is situated on the south-west corner of the Gulf of Finland at its point of confluence with the Baltic Sea, sharing borders with Latvia to the south and the Russian Federation to the east. The capital, Tallinn, lies 80 kilometres south of Helsinki across the Gulf of Finland. Estonia has a territory of approximately 45,000 square kilometres and a population of 1.6 million people, of whom 62 per cent are of Estonian origin and 30 per cent of Russian origin. Other significant minorities are Ukrainians, Belorussians and Finns. About one third of the population lives in Tallinn. The country's terrain is fairly flat, with forests covering 40 per cent of the territory. Other natural resources of some significance are oil-shale, phosphorite and limestone. The 1993 gross national product (GNP) per capita is estimated by the World Bank at $3,040. Estonia was ranked twenty-ninth on the 1994 human development index.

2. Independence was regained in 1991 and a system of parliamentary democracy was introduced, with an elected President as head of State. The National Legislature consists of a unicameral assembly of 101 members elected every four years. The next general election will take place in March 1995.

3. The collapse of the Soviet Union and the resultant independence brought with it severe dislocation of the economy, with measured industrial output declining by about 40 per cent and agricultural output by more than 20 per cent. Inflation was rampant, at an annual rate of close to 1,000 per cent in 1992.

4. Thus, in its first two years, the main goal of the Government was to stabilize the economy and to provide a stable and credible base from which the transition from a command economy to a market-oriented economy could take off. This goal was achieved through a number of far-reaching measures. One of the most significant of these was to introduce its own, now fully convertible currency, the kroon. Another key measure was the establishment of a currency board rather than a central bank to manage the currency, which is indexed to the German mark at 8 to 1.

5. In the first two years of its existence the main elements of the Government's economic reform strategy were:

(a) The rapid establishment of a legal basis for a normal market economy;

(b) Very conservative fiscal and monetary policies following the introduction of the kroon;

(c) A comprehensive tax reform to simplify the tax system, stressing indirect taxes over direct taxes and lowering average and marginal tax rates;

(d) Liberal domestic and foreign trade policies;

(e) Rapid and comprehensive privatization of State assets.

6. Most of these goals have been achieved and Estonia has been successful in maintaining the kroon as a stable and convertible currency, the government budget has been kept in balance or surplus, and monetary emissions have followed the Currency Board's rules.

7. The tax reform has been completed and a single flat income tax of 26 per cent for both corporations and individuals has been introduced. Indirect taxes such as a value added tax have been introduced, as has a motor fuels excise tax and a new land tax. All subsidies, except for rent, utilities and public transport, have been removed and price liberalization has been completed.

8. The stable macroeconomic framework has encouraged the establishment of a large number of new enterprises and has attracted substantial foreign investment. Estonia is at present the leader in Central and Eastern Europe in volume of foreign investment per capita. The highly specialized industrial structure set up under Soviet rule is being dismantled and the privatization process, which should be concluded by the end of 1995, is continuing. The liberal trade regime has promoted both imports and exports, and trade has been drastically reoriented from the East to the West. Most of the trade is governed by free trade agreements entered into with the European Union (effective 1 January 1995), four of the countries of the European Free Trade Association (EFTA) (Finland, Sweden, Norway and Switzerland) and the three Baltic States.

9. While the prospects for Estonia's future look very promising, many serious problems will still have to be faced. The economic reconstruction has led to the closure of several large State-owned companies, with a resulting increase in unemployment. Although official statistics record an unemployment rate of only 2 per cent, several independent household surveys indicate that the real rate of unemployment is more likely in the range of 8 to 9 per cent. This rate may well rise in the coming years as the privatization process is completed and labour statistics become more reliable.

10. In general, the social sectors pose the most serious problems and will require special attention by the Government. At present, social benefits such as pensions and unemployment benefits are below subsistence levels. Medical insurance is not adequate and the traditionally high-quality education system is under severe pressure owing to the lack of State resources.

11. Damage to the environment is quite serious. The most serious environmental problem is related to oil-shale mining and its use in two large power plants in the north-east of Estonia. These plants provide the country with approximately 80 per cent of its energy needs. Former Soviet military bases have also left Estonia with severe environmental problems, which will be both costly and technically difficult to correct. Moreover, there is a general lack of knowledge and awareness of proper environmental management among the general population.

12. According to International Monetary Fund (IMF) projections, it is expected that over the medium term the economy will grow at around 6-7 per cent per annum, reflecting projected productivity gains from combining Estonia's skilled labour with the high marginal productivity of newly invested capital. The sustainability of all gains achieved to date will, however, depend entirely on

the Government's continued conservative and responsible macroeconomic and fiscal policies, as well as its continuing and improving the present environment-friendly investments.

B. National development objectives and strategies

13. During the coming years, the primary aim of the Government is to continue its present policies and strategies. The main goal is to preserve the Estonian nation and to improve the standard of living and quality of life of its people.

14. To achieve this, the Government will continue to reduce the role and intervention of the State in the economy. The goals of the Government in establishing a market-based civil society are:

(a) To create a favourable environment for economic activity by the adoption of new laws, the maintenance of low taxes and the pursuit of tight financial policies and liberal commercial policies;

(b) To assist in the development of the infrastructure needed for enterprises to develop;

(c) To provide its citizens with services in sectors such as internal security, national defence, education, health and minimal social security where the private sector either cannot on principle play a role or is still too weak to take on major responsibility.

15. Thus, according to its general reform strategy, the Government will:

(a) Complete the process of ownership and land reform, assist in the development of real estate and financial markets, and promote the establishment of a broad class of owners;

(b) Accelerate the process of privatization, completing most of the work by the summer of 1995;

(c) Accelerate the development of a sound legal foundation for civil society and a market economy;

(d) Ensure the maintenance of political stability, strengthening national security and halting the spread of criminal activity;

(e) Strengthen social stability by reforming the social security system in order to target assistance to those most in need and by enhancing a programme to support young families;

(f) Invest more extensively and in a more focused way in the future by giving greater support to the educational system, to retraining and to science.

16. Given the severe limitations on the Government's financial resources, a careful determination of the areas in which the public sector has a clear mid-term role and those in which the private sector should take a major

responsibility must be made. To that end, the Government has decided to introduce a public investment programme that will ensure optimal use of scarce public resources. It is the Government's position that the public sector will initially have responsibility for governing the nation and ensuring (a) road maintenance; (b) environmental protection; and (c) national defence and maintenance of public order. Furthermore, the Government will play a dominant role in education and culture, health care, transport infrastructure, energy production, forest management, local transport and water supply.

II. EXTERNAL COOPERATION

A. Role of external cooperation

17. External aid and technical cooperation constitute an important complement to the national efforts in developing the different sectors of society and in fulfilling the development objectives of the State.

18. The main external resources for technical assistance are the European Union, Finland, Sweden, Germany, the United States, Denmark, Italy, Switzerland and the United Kingdom.

19. The largest programme of technical cooperation is that of the European Union, which began in 1991. During the period from 1991 to 1993, the European Union provided funding in an amount of ECU 26.6 million. An amount of ECU 14 million has been approved for the programme for 1994-1995. Assistance will be given mainly to promote economic reforms, institutional and human resource development and infrastructure development. In addition to the national programme, Estonia participates in 13 different regional programmes.

20. With regard to multilateral financial organizations, the World Bank has given very active support to the Government over the past three years. It has prepared a detailed country study entitled "Estonia - The Transition to a Market Economy", is advising on macroeconomic policy and is assisting in the development of strategic criteria and providing operational assistance for an interministerial public investment programme work group. In the early days of independence, the World Bank granted a rehabilitation loan to be used for critical imports in the energy, agriculture, transport and health sectors. Several loans are now under preparation or have already been granted, covering such sectors as energy, highway maintenance, enterprise/financial restructuring, health, agriculture and forestry, environment and housing. IMF has been advising the Government on monetary and banking policies. The European Bank for Reconstruction and Development (EBRD) has given assistance to different sectors of the economy.

B. Aid coordination arrangements

21. Responsibility for coordination of technical cooperation on a national level lies with the Department for International Cooperation of the Ministry of Finance. In addition, an interministerial foreign aid coordination group has been established to review and approve all offers and requests for assistance.

The Government has been relatively successful in coordinating the activities of bilateral donors with those of the European Union, the World Bank and other multilateral financial institutions.

22. On an international level, the G-24 decided to give the coordination mandate of assistance to the Central and East European region to the European Union, which has provided technical cooperation to improve the management and coordination capacity in the Ministry of Finance and to establish a database. An informal G-24 meeting, bringing together representatives of bilateral donors, the European Union, financial institutions and the Ministry of Finance, is held regularly to discuss and exchange information on scheduled activities in different sectors in order to avoid duplication. The meeting is chaired by the European Union and co-chaired by UNDP.

23. Assistance from the United Nations system, including UNDP, is coordinated by the Ministry of Finance.

III. THE COUNTRY PROGRAMME

A. Proposals for UNDP cooperation

1. Preparatory process

24. In the discussions on the content of the country programme held between the Government and UNDP, account was taken of the Government's stated national policies and strategies, as well as the somewhat restricted mandate given to UNDP for its programme of cooperation in the Baltic States. The preparatory process also included extensive discussions with the major international financial institutions and the most important bilateral donors. Both the Government and UNDP were greatly assisted by several reports prepared by UNDP missions prior to the opening of the office in May 1993. These included missions by the UNDP Management Development Programme, the United Nations Population Fund (UNFPA) and the United Nations Industrial Development Organization (UNIDO).

25. As the UNDP presence in Estonia is very recent, the preparatory process has included intensive contacts with all central line ministries as well as a variety of non-governmental organizations and academic institutions. The present programme closely reflects the Government's transition strategies and priorities as well as the comparative advantage of UNDP in supporting the Estonian authorities' efforts to achieve these goals.

2. Strategy for UNDP cooperation

26. The main sectors chosen for the intervention of UNDP fully follow both the Government's announced priorities as well as the UNDP mandate for achieving sustainable human development through strengthened national capacity and self-reliance, and building partnerships both within civil society and externally.

27. Given the small indicative planning figure (IPF) allocated to Estonia, the Government of Estonia realizes that UNDP resources must be used for high-impact interventions, which, to the extent possible, can attract additional concessional funding of priority programmes identified in collaboration with the United Nations system. Access to the broad and comprehensive experience of the United Nations system is recognized by the Government as an important comparative advantage of UNDP and it will be exploited fully during the implementation of the present country programme.

28. The Government intends to utilize this experience to build national capacity not only to achieve self-reliance but also to be able to offer Estonian expertise to other countries in the region that could benefit from Estonia's transition experience. The programmes supported by UNDP will therefore rely, to a large extent, on national experts and institutions and be nationally executed as far as possible.

3. Proposed UNDP cooperation in selected areas of concentration

29. The first country programme for Estonia will concentrate on the following three areas: (a) administrative reform and governance; (b) economic strategies and policy; and (c) the social impact of transition.

Administrative reform and governance

30. In the transition from a centrally planned economy to a market-oriented parliamentary democracy, Estonia faces a formidable task in reorienting and reorganizing public sector management. Redrafting basic legislation has been and continues to be a major task for the country and the civil service structure will require a comprehensive review to ensure that it is able to implement legislation and provide a meaningful service to the public. State-of-the-art information technology needs to be introduced at all levels of the administration to provide the necessary support both for decision-makers and the civil service. UNDP will play a key role in this field, where support will be provided to the Estonian State Computing Centre to enable it to design and maintain critical central registers such as population, land, privatization and property. At the same time, UNDP will support the Government's efforts in designing accounting systems both at central and county levels.

31. The vacuum created by the lack of proper legislation and efficient law enforcement has, unfortunately, been exploited by both organized crime and petty criminals. The per capita murder rate in Estonia is higher than in the United States and violent crime is increasing. At the same time, the criminal justice system needs to be reformed and prison conditions are far below West European standards.

32. To support the Government in the fight against crime, UNDP, together with appropriate United Nations institutions and national expertise, will prepare a master plan for crime prevention and criminal justice reform. Such a plan might be implemented as a joint exercise with Latvia and Lithuania, as all three Baltic States are facing similar criminal problems.

33. The introduction of a public investment programme financed from both domestic and international sources has made it clear that the lack of proper public procurement policy legislation has had a negative impact on the efficient use of scarce public resources. In this area, UNDP will continue to work with the World Bank to provide support for the drafting of legislation and the development of comprehensive training programmes for the major line ministries and governmental institutions.

Economic strategies and policy

34. Since independence, the Government of Estonia has been preoccupied with trying to achieve economic and political stability, focusing mainly on critical decisions required for the day-to-day management of the country. It has now become evident that more attention needs to be given to the development of an economic vision and strategy by bringing the Government, academia, the private sector and parliament together to establish a process that will encourage cross-sectoral communications and teamwork. UNDP cooperation will be used to support this process, which will benefit from the global reach and flexibility of UNDP. In addition, it is envisaged that UNDP could be instrumental in securing widespread donor support for the implementation of an economic strategy.

35. The private sector strategies of the Government emphasize the role of small and medium-size business in the creation of employment opportunities. In collaboration with the Finnish Ministry of Labour, UNDP has been asked to provide assistance in the creation of "new enterprise centres". The service provided by the centres is based on the philosophy of an international NGO "Jobs and Society", which is active in many European countries. The idea is that existing larger and well established industries will provide advice free of charge to new entrepreneurs in the hope that long-term relationships will be established.

The social impact of transition

36. Although Estonia has been able to stabilize its economy in a relatively short time, the economy is growing and foreign investment is increasing, it is clear that many serious problems remain to be tackled, particularly in the social sectors. The Government realizes that favourable long-term development in the country will depend on the adequacy of its social policies. UNDP, with its focus on sustainable human development, has a unique role to play in promoting the empowerment of the people.

37. Encouraged by the global Human Development Report, the Government has welcomed the UNDP initiative to prepare national human development reports, which would analyse the social impact of transition and highlight the most critical problems, as well as provide policy options for their solution for decision-makers to consider. UNDP will allocate resources for this initiative both from its special programme resources and IPFs to ensure that the report is prepared annually. UNDP will work closely with the World Bank and the United Nations Children's Fund (UNICEF) on this initiative, which will be carried out by Estonian institutions and expertise.

38. The reconstruction of Estonian society has placed serious constraints on the entire population. However, the establishment of the Republic of Estonia opens up many opportunities that have not yet been explored. One such opportunity is the shaping of policies for the future that take into account the specific needs and concerns of women. In order to achieve an increased involvement of women in decision-making processes at different levels in society, women's skills and capacities should be strengthened through public awareness, training and gender research activities. UNDP will contribute to the establishment of a gender analysis centre at the University of Tartu and will also support Estonia's preparations for the Fourth World Conference on Women to be held in Beijing in 1995.

39. About a third of the population of Estonia is of non-Estonian origin. In the north-east of Estonia (Idä-Virumaa) non-Estonians form a clear majority and this has created special problems, both political and social. A gradual social and economic integration into Estonian society for those who qualify for either citizenship or permanent residency is the Government's goal. In collaboration with the Tallinn branch of the Stockholm Environment Institute, UNDP will continue to provide assistance to the recently established Idä-Virumaa Sustainable Development Commission. The Commission will prepare recommendations for possible programmes in the economic, social and environmental fields aimed at contributing to the integration process.

B. Assistance outside the main country programme areas

40. With extremely limited core funds available to Estonia, very few activities outside the main programme areas can be undertaken. Nevertheless, a modest amount will be set aside for umbrella-type activities that would provide the Government with a flexible facility to draw on the United Nations system's experience. These activities could make the use of modalities such as the Transfer of Knowledge through Expatriate Nations (TOKTEN), United Nations International Short-Term Advisory Resources (UNISTAR) and the United Nations Volunteers (UNV), as appropriate.

C. Implementation and management arrangements

41. Since this is the first country programme for Estonia and in view of the fact that the UNDP office has only been operational since May 1993, many of the concepts that govern UNDP-supported activities will need to be introduced in a gradual but systematic manner. National capacity-building will be the cornerstone of UNDP interventions and national execution will therefore be the norm rather than the exception. The UNDP office at Tallinn will initially provide direct support when required.

42. The programme approach will also be introduced in a gradual manner to increase the effectiveness of external cooperation. This will also allow the Government and UNDP to seek additional cost-sharing contributions from interested donors to supplement the limited resources available from UNDP.

43. Periodic reviews of programme performance will be undertaken jointly with UNDP and the Department for International Cooperation of the Ministry of Finance, and a formal mid-term review of the country programme will be undertaken during the second half of 1995.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	$
Carry-over from fourth-cycle IPF	-
Fifth-cycle IPF	827 000
Subtotal IPF	827 000
Baltic Trust Fund cost-sharing	377 000
Third-party cost-sharing	250 000
TOTAL	1 454 000

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

	Thousands of United States dollars			Percentage of total resources
Area of concentration	IPF	Cost-sharing	Total	
Administrative reform and governance	288	262	550	38.0
Economic strategies and policy	170	130	300	20.7
The social impact of transition	213	207	420	29.0
Umbrella activities	156	21	177	12.3
TOTAL	827	620	1 447	100.0

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES IN UNDP AREAS OF CONCENTRATION

	$
UNDP-administered funds: SPR	95 000
Other United Nations resources: UNFPA	150 000
Other United Nations agencies: GEF	100 000
TOTAL	345 000

Annex II

PROGRAMME MATRIX

Area of concentration	Area of focus a/					
	Poverty eradication and grass-roots participation in development	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology	WID
Administrative reform and governance			*	*	*	
Economic strategies and policy	*	*	*			*
Social impact of transition	*	*	*			*

a/ Asterisks indicate major linkages only.